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The firm denied Kohlberg's allegations in a statement: "We are saddened that Mr. Kohlberg felt it necessary to sue his partners and KKR. We believe he is wrong, both as to the facts and his interpretation of the agreement between us and we fully expect to prevail in court."

The suit comes as Kohlberg Kravis, a superstar in mergers and acquisitions and the leader among leveraged buyout firms, has run into difficulties with some of its properties.

Leveraged buyouts are deals financed mainly with borrowed money that is repaid with the acquired company's cash flow or the sale of its assets.

The firm, whose operations long have been a mystery to the public, reportedly has had trouble selling some of its businesses and several others either are foundering or

have been disappointing investments.

For example, New York-based Seaman's Furniture Co., which went private in a \$340 million Kohlberg Kravis-organized LBO two years ago, has said it must renegotiate debt payments, partly because sales growth has not met expectations.

Kohlberg, Kravis and Roberts formed their partnership in 1976, with each of the three serving as general partners who managed the firm and directed its acquisitions and investments.

Kohlberg remained a general partner until 1987, when after a falling-out with Kravis and Roberts over the firm's strategy he became a limited partner, sharing in Kohlberg Kravis' profits but not in its management.

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CONSUMER BUSINESS

Corporations Begin Cleaning Up Their Acts

Wal-Mart Solicits Help, Procter Testing Ways To Recycle Diapers; Arco's New Fuel

By Cathleen Ferraro, *Investor's Daily*
Running a clean business no longer means just keeping the books straight.

Corporations, responding to a groundswell of consumer demand for environmentally compatible products, are starting to make and market goods that promise to keep air, water and land relatively clean.

"Every firm is going to start marketing based on environmental issues in the next five years," predicted Michael Picker, West Coast director of the National Toxics Campaign, a Boston-based citizens group focusing on environmental protection.

Atlantic Richfield's plan to launch a cleaner gasoline has sparked a race among U.S. oil refiners to develop competing fuels. — See story / page 13

Already leading the new corporate scramble of the 1990s are such firms as Wal-Mart Stores Inc., Procter & Gamble Co. and Atlantic Richfield Co., as well as some private companies. All are calling for corporations to do more about the environment, and are taking steps on their own.

Wal-Mart, for example, recently approached manufacturers through a newspaper advertisement and private letters to encourage environmentally friendly products. The newspaper ad was headlined, "We're looking for quality products that are guaranteed not to last."

The nation's third-largest retailer, Wal-Mart promises to feature new recyclable or reusable products with special self tagging, but refuses to say how much space will be dedicated to the improved goods.

"No section of the store can be eliminated or segregated, however," said Wal-Mart spokeswoman Brenda Lockhart. "It will really depend on the manufacturers' response, which has been good so far."

Picker of the National Toxics Campaign said Wal-Mart's drive to offer such products is a major step toward giving the public a chance to make consumer choices based on environmental concerns. But he questioned the depth of the change.

"It's good what Wal-Mart is doing," he said. "It sounds like a great market

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ing opportunity, too. The real question is, will this solve the pollution problem?"

Perhaps not, he added, because major consumers of these environmentally damaging chemical products are not the public but the manufacturers of durable goods who are way upstream from consumers. "The products themselves are not the problem, but the process of how they are made," he said.

In the letter to producers, Wal-Mart did encourage improvements in manufacturing as well as in use and disposal.

Diapers, a staple good for a retailer like Wal-Mart, and their disposal have been a central topic of debate among retailers and environmental groups. About 43 million disposable diapers are discarded daily.

Procter & Gamble's Compost Plan

Part of the debate focuses on whether a truly biodegradable diaper can be made. But Procter & Gamble, a major manufacturer of household consumer products, scoffs at the importance placed on making a fully biodegradable diaper. It claims that diapers made even of biodegradable substances can't fully break down in traditional landfills, which are unexposed to air and water that facilitate degradation. And even if they could break down, the company

argues, biodegradable diapers miss the point.

"Our view is that diapers are such a small part of what goes into a landfill," said company spokesman Scott Stewart. "The problem, therefore, is not diapers but how we manage our solid waste. Biodegradable diapers don't work, and they detract attention from the real solution to the environmental problem, which is throwing away less, recycling and composting."

After spending more than \$600 million on research last year, Procter & Gamble will launch two programs in November focused on the composting and recycling of diapers.

In the first program, soiled diapers from St. Paul, Minn., will be collected, added to the company's composter and then evaluated for their composting quality. If that quality proves to be good, the company may encourage using composters instead of common landfills for diaper disposal.

The second program, involving diapers from 1,000 Seattle families, will separate the paper and plastic from the diapers and later convert the materials into park benches, planting pots and cardboard boxes.

But a private California firm, American Enviro Products Inc., stands by the viability of biodegradable diapers.

President Robert Chickering says because his company adds cornstarch to the plastic, the diapers can break down in about 1 1/2 years.

"I agree that recycling and composting have to be a part of a sound environmental strategy for the country," he said. "But if the technology is there to make biodegradable diapers, and they do change into water and carbon dioxide, which is not harmful to the environment, then why shouldn't we make them?"

American Enviro was started last January solely to produce the product, and it now sells its diapers in several locations, including Target stores and Lucky Stores Inc.'s Northern California outlets.

On the clean air front, Atlantic Richfield Co. has spent \$15 million to \$20 million to produce EC-1, a pioneering low-emission fuel.

Scheduled to go on sale in Southern California starting tomorrow, EC-1 is intended to replace leaded fuel used by cars made before 1975 and trucks made before 1980, the two years when pollution-controlling catalytic converters were first required on vehicles.

"Fifteen percent of all cars in Southern California run on these old engines, contributing to 30% of all pollution that cars send out," said Arco spokesman Albert Greenstein.

The biggest advantage to EC-1, he added, is that the low-emission fuel "makes an immediate contribution to cleaning up the air." EC-1 has a head start on other new fuels, such as methanol, which have yet to be mass-marketed and have problems that include eating through conventional gas tanks and plastic engine hoses, another Arco spokesman added.

Safer Inc. Products

Other environmentally safe products include herbicides, pesticides and fungicides made by Safer Inc., a Newton, Mass.-based firm planning to go public within the next three years. Sales this year already have doubled over 1988, signaling both an aggressive ad campaign and consumer acceptance of the goods.

The active ingredient in Safer's products is refined potassium soap that disrupts the cell membranes of soft-bodied insects. Within 48 hours, the soap degrades to carbon dioxide and water, unlike traditional pesticides and insecticides that can take hundreds of years to degrade, according to marketing director Mark Dockser. Accidental swallowing of one of the Safer products, he added, might lead to a severe stomachache, but not hospitalization.

Safer President Craig Taylor predicts 50% of the insecticide market will be served by environmentally compatible products within five years. "And with second- and third-generation patentable technology, we should have an edge on the market," he said.

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